

Message Text

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17

ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 ABF-01 FS-01 EB-07 OMB-01 OPR-01

A-01 CIAE-00 DODE-00 INR-05 NSAE-00 PA-01 RSC-01

USIA-06 PRS-01 SP-02 /041 W
----- 086719

R 041439Z DEC 74

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 2348

DEPT OF COMMERCE WASHDC

INFO AMEMBASSY BELGRADE

AMEMBASSY BUCHAREST

AMALBASSY MOSCOW 1493

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY VIENNA

AMEMBASSY WARSAW

AMCONGEN MUNICH

LIMITED OFFICIAL USE BUDAPEST 3344

E.O. 11652: N/A

TAGS: EFIN, ETRD, HU

SUBJ: REVALUATION OF HUNGARIAN FORINT

STATE PASS TREASURY

1. FROM RECENT DISCUSSIONS WITH SENIOR OFFICIALS OF
MINISTRY OF FINANCE AND NATIONAL PLANNING OFFICE AS WELL
AS READING OF NUMEROUS ARTICLES IN HUNGARIAN PRESS, EMBASSY
CONCLUDES THAT EARLY REVALUATION OF HUNGARIAN FORINT VIS
A VIS DOLLAR AND OTHER WESTERN CURRENCIES ABSOLUTE
CERTAINTY WITH STRONG LIKELIHOOD THAT REVALUATION WILL BE
ANNOUNCED BEFORE END OF YEAR. WHILE HUNGARIAN OFFICIALS
HAVE NOT REVEALED TO US PRECISE SIZE OF PLANNED REVALUATION,
AKAR, CHIEF OF INTERNATIONAL AFFAIRS SECTION OF MINISTRY
OF FINANCE, REPLIED AFFIRMATIVELY WHEN ASKED IF PERCENTAGE
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OF REVALUATION WOULD CORRESPOND WITH WESTERN RATES OF

INFLATION. AKAR EMPHATICALLY DENIED THAT PLANNED REVALUATION WOULD BE ANYWHERE NEAR SIZE OF RECENT ACTION BY BULGARIAN GOVERNMENT WHICH INCREASED VALUE OF LEVA BY MORE THAN 40 PERCENT VIS A VIS DOLLAR.

2. QUERIED ABOUT RATIONALE BEHIND IMPENDING GOH ACTION, AKAR STATED THAT REVALUATION WOULD HAVE DESIRABLE EFFECT OF MAKING HUNGARIAN IMPORTS FROM WEST CHEAPER WHICH WOULD BOTH HELP REDUCE INFLATIONARY PRESSURES BUILDING UP IN ECONOMY AND ENABLE GOVERNMENT TO REDUCE OR AT LEAST PREVENT INCREASE IN GROWTH IN SUBSIDIES PAID TO HUNGARIAN IMPORTERS. (CENTRAL SUBSIDIES TO PROVIDE RELIEF TO IMPORTERS HAVE RISEN FROM 6 BILLION FORINTS IN 1973 TO OVER 25 BILLION THIS YEAR.)

3. REVALUATION OF FORINT WOULD ALSO SERVE AS TAX ON HUNGARIAN EXPORTERS WHO WILL RECEIVE LESS RETURN IHRFORINTS FOR PRODUCTS SOLD IN WEST FOR HARD CURRENCY. AKAR STATED THAT EXPORTERS MUST BE PUSHED TO TRY AND OBTAIN HIGHEST POSSIBLE PRICES FOR THEIR PRODUCTS PARTICULARLY IN VIEW OF MARKED DETERIORATION IN HUNGARIAN TERMS OF TRADE DURING PAST YEAR. REVALUATION WOULD ALSO HELP TO ATTAIN THIS GOAL. WHEN ASKED IF REVALUATION WOULD NOT MAKE HUNGARY'S ALREADY SIZABLE BALANCE OF TRADE DEFICIT WITH WEST (ABOUT \$450 MILLION IN 1974) STILL LARGER, AKAR ADMITTED THAT THIS STILL MIGHT ENCOURAGE ADDITIONAL IMPORTS, HOWEVER, ADDED THAT GOH PLANNED TO DAMPEN ENTHUSIASM FOR IMPORTS WITH A TIGHT MONEY POLICY. HE DID NOT EXPECT THAT RESTRICTIVE POLICY ON GRANTING OF IMPORT LICENSES WOULD BE ADOPTED.

4. COMMENT: EMBASSY ANTICIPATES THAT REVALUATION WILL BE ANNOUNCED SOMETIME DURING NEXT 3-WEEK PERIOD. OUR ESTIMATE IS FORINT'S OFFICIAL RATE WILL RISE ABOUT 10 PERCENT VIS A VIS DOLLAR, AND LESSER PERCENTAGES AGAINST MARK, SWISS FRANC, AND AUSTRIAN SCHILLING.
PEDERSEN

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